

**SUCCESSION+**

# **15 Powerful Exit Strategies to Maximize the Value of Your Business**

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As a business owner, making the decision to sell is bittersweet. On the one hand, you've poured your heart and soul into your business. You've fostered close relationships with your employees, suppliers, and clients over the course of many years. A part of you never wants to leave.

On the other hand, though, you're moving closer to retirement age – you want to be able to spend your golden years without the stress and long hours of running a business. You want to enjoy the financial reward of all the hard work you've put in over the years and spend some quality time with your family.

So, when it does come time to sell, you need to make sure you negotiate a smooth and successful exit... One that not only sees you financially rewarded for the decades of your life you've dedicated to your business – but also ensures your employees are taken care of after you depart, and your legacy remains intact.

### **Why should you trust what I say?**

My name is Craig West, and I'm the Founder and Chairman of Succession Plus. Since 2009, my expert team and I have helped over 800 clients prepare their business for sale and guide them through a successful exit.

Throughout my time in the industry, I've come to realize one thing in particular – many business owners are unprepared when it comes time to sell their business. They put so much effort into focusing on the everyday aspects of running a successful company, they never had the time to look ahead. But it's vital you do plan when selling your business. Otherwise, you could be short-changed in your retirement and put your legacy and employees at risk.

I've written this paper to give you some practical advice you can start putting into action right now to maximize the valuation of your business. I will cover:

- 15 powerful strategies you can start implementing today to sell your business for the maximum price
- The most important step when preparing your business for sale that could add millions of dollars to the final valuation
- How to find a buyer that will pay a much higher premium for your business
- The top 3 strategic value drivers that motivate 80% of acquisitions
- The 4 fatal mistakes business owners make during the selling process that cost them a fortune
- The secret to maximizing the value of your business post COVID-19
- How to leave a legacy for your employee

# 15 Powerful Exit Strategies You Can Action Right Now to Maximize the Value of Your Business

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## 1. Reduce your business' dependence on you (the owner)

If you are exiting your business, it needs to be able to run just as well once you are gone. If not, the risk for the buyer increases – and a higher risk means a lower valuation. Putting the relevant operating procedures in place so your business can run smoothly when you aren't there will instantly make it more attractive to prospective buyers.

## 2. Have a clear business model

Do you follow a boutique model where quality and premium service is the focus of your business? Or a scalable model where volume is the key to your success? Understand which of these two models your business falls into, then make sure every area is aligned.

## 3. Make sure your business has sustainable revenue

Does your business rely on one-off sales, or do you have agreements in place that deliver recurring revenue? Annuity style income from long-term contracts is more sustainable, and therefore more valuable, to a potential buyer than a business that must continually make sales.

## 4. Think about the size of your business

When it comes to mergers and acquisitions, size does matter. A larger business is typically a lower risk for a buyer as it has more resources and a higher capacity. Businesses with a turnover of \$5M+ almost always get a higher multiple when they sell. That's why it's important to map out your business and have a clear idea of the size of your operations, then look to see if you can increase your capacity.

## 5. Get the right systems in place

Policies, procedures, processes, tools, and templates – these are all crucial to ensure your business operates efficiently and consistently day in, day out. It sounds obvious, but it's always amazing how few businesses get it right. Having the correct systems in place so your business runs efficiently makes it more attractive to a prospective buyer because there is less work they must do after taking ownership.

## 6. Automate your sales and marketing

Being able to prove you have a sustainable sales and marketing system, where you have a consistent, reliable source of new leads coming in, is very important when selling your business. It means fewer fluctuations in revenue and less risk for the buyer.

## 7. Corporate governance and compliance

A clear hierarchy with a board in place and regular reporting periods keeps the entire business accountable, from top to bottom. Businesses that are governed more effectively will almost always have a lower level of risk, and therefore attract a higher sale price.

## 8. Engage, motivate, and incentivize your employees

Employees who have incentives to work hard will almost always hit their KPIs more often than those who don't. Incentives, such as an employee share plan, can also help you attract and retain the top talent in your industry and build a successful culture inside your business.

## 9. Target a strategic buyer

Think about who in your marketplace – whether that be a customer, client or even a competitor – might be interested in your company and pay a higher price for it. Private sales almost always receive a higher price than listed companies, so finding a buyer from your existing network could drive up your price, but it might also enable you to sell your business to a buyer who truly appreciates what you've built and respects the foundations you've set in place.

## 10. Don't sell without the best advice

As a business owner, this will be the most important sale you'll ever make – but there's also a strong chance it will be the only time you sell a business. Having appropriate advisors around you who have more experience – whether they be business coaches, accountants, lawyers, or insurance experts – can guide you through the process and fill in any gaps in your expertise.

## 11. Understand the laws on Capital Gains Tax

There are significant Capital Gains Tax concessions in place for small businesses. It's crucial to understand the rules and regulations clearly so you can place your business in the best position to qualify for those concessions. In doing so, you'll be able to legally reduce the amount of tax you pay and maximize your total profit from the sale.

## 12. Put together an Information Memorandum (IM)

A well-drafted IM helps buyers gain a deeper understanding of your business, its operations, its competitive environment, its intellectual property and assets, and the strategic opportunities available. It should be written with the buyer in mind because it's the document they will first see when considering the acquisition.

## 13. Conduct your due diligence

This is where most transactions fall apart – when the seller doesn't have complete, accurate and up-to-date documentation that demonstrates a well-managed business. A buyer will do their due diligence and find any gaps you have. Being able to explain any issues or gaps, and having the documents to back up your explanation, can ensure nothing detracts from the value of your business.

## 14. Go into negotiations with a clear definition of what's acceptable

Before you get to negotiation stage, you need to understand exactly what you are prepared to accept. Don't just think about the price, but also the structure and terms of any potential deal. Once you have a clear idea of what you are willing to accept, you will be in a better place to negotiate with prospective buyers to obtain a deal you are satisfied with.

## 15. Seek sound legal advice

A good lawyer is crucial when drawing up the contractual documents, because getting the legal agreements right will make a substantial difference to your overall outcome. This is a complete minefield for those without legal experience – it's very important to understand your limitations and seek advice from an experienced lawyer to help you throughout the final stages.





## The Most Important Step When Preparing Your Business for Sale That Could Add Millions to the Final Valuation

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I touched on this above (point #9), but I'm going to cover it in a bit more detail now because it's the most crucial thing you need to get right if you want to sell your business – and that's finding a strategic buyer to make the acquisition.

To achieve a higher sale price, the best thing you can do is focus on **HOW** to sell and **WHO** to sell to. A business' value comprises its risk profile and who its acquirer is – and some types of buyers pay more than others. Targeting a strategic acquisition can often increase the sale price more than increased profits.

Most people get caught here and overlook this simple fact. They focus on trying to slash as many costs as possible in the lead up to a sale. But a strategic buyer won't focus so much on your expenses as they will on the potential the acquisition has for increasing their own revenue.

In fact, if you look at the numbers, increasing revenue by 1% generally has a 5X greater impact on the bottom line than decreasing operating expenses by 1%. Most managers waste too much time cutting costs in the lead up to a sale, when in fact they should be focusing on how to increase the value of their business to strategic buyers.

That doesn't mean you should go out and spend money like a madman – it simply means focusing more on the strategic growth opportunities that could come from the transaction.



## How to Find a Buyer That Will Pay a Much Higher Price for Your Business

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Connecting to a network of qualified buyers and staying on top of changes in the market will assist you in determining who is right to sell to, and for how much. When identifying opportunities for a strategic sale, look inside your existing network for other businesses that would gain the most from acquiring your company.

Think about your clients, your suppliers, your competitors, or those who operate in the same industry but a different niche and identify businesses that might be interested in what you have.

Large businesses that will pay the highest price for your business won't simply look at your balance sheet. They focus on the talent, intellectual property, and products your business has that provide them with substantial opportunities for growth and prosperity.

If you look at a huge business like Apple, for example, and take a closer look at their acquisitions, you can see what I'm talking about more clearly. In 2018 Apple purchased Texture, a digital subscription model for magazine publishing. Twelve months later, Apple launched its new subscription service, Apple News+.

Apple didn't pay a multiple for Texture – they didn't purchase it for its profit ratio. Instead, they made a strategic acquisition because they identified a combination of IP, talent and products that would provide substantial value to their business.

For that reason, they were willing to pay a premium for the acquisition – substantially more than what many other companies would have paid – because Texture was worth more to them than it would have been to others.

If you're unsure about the type of buyer you could approach to acquire your business, you can always seek advice from an expert. At Succession Plus, our team has 100+ years of combined experience in mergers and acquisitions, and the network that comes with it. We can help you identify a strategic buyer and maximize the value of your business.

If you'd like to get in touch, you can book a free, 45-minute strategy session with one of our experienced business advisors. We'll discuss a successful exit strategy and outline how you can prepare for, and negotiate, a strategic acquisition – so you can maximize your sale price and set yourself up for the rest of your life.

## The Top 3 Strategic Value Drivers That Motivate 80% of Acquisitions

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'Strategic value drivers' are specific aspects of your business that a buyer will pay more for. You see, each buyer will identify certain assets – whether that be your geographical location or a particular piece of technology you have – that have the potential to help their own business grow. It is these strategic value drivers that will help you receive the maximum possible sale price for your business.

According to Exitrak, a company that reports on the pricing and motivations behind acquisitions, there are a variety of reasons that drive sales. The main ones are:

- Complementary product/service - 36%
- Market niche - 25%
- Geographic location - 17%
- Key customers - 7%
- Technology - 6%
- Marketing - 3%
- Potential as acquisition hub - 2%
- Management team - 2%
- Strategic alliance/joint venture - 2%

As you can see, most strategic acquisitions take place because of the top 3 strategic value drivers. In fact, they account for a massive 78% of all acquisitions. This piece of knowledge is very powerful because you can identify the value drivers in your own business and highlight them to prospective buyers. Think about whether your geographical location is highly sought-after... whether you operate in a market niche that other businesses might value... or if you have products or services that might complement their already existing operations. These are all value drivers that can help you achieve the maximum sale price possible.



## 4 Fatal Mistakes Business Owners Make During the Selling Process That Cost Them a Fortune

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As a business owner, you pour your heart and soul into building your company for years on end. It's a huge part of your life. It can be a bitter pill to swallow if you must settle for less than what you feel it's worth.

There are four major mistakes business owners make during the acquisition process which can slash their final sale price in half:

### 1. Not beginning with the end in mind

Planning and preparation are critical to ensure a successful exit. After all, selling your business is one of the most significant transactions of your lifetime – it's not something you want to rush into without ensuring everything is in order. Sadly, too many business owners wait until the last minute to make plans they should have had in place all along. It narrows down the number of potential buyers, forcing them to accept an offer that doesn't meet their expectations.

### 2. Not providing employee with incentives and opportunities to become leaders

Too many business owners keep their staff at a distance. They don't empower them to become the future leaders of the business. Providing opportunities for employees to show initiative is very important for their development, and it also makes them feel more invested in the success of the company. You can go one step further by offering incentives in the form of share programs that give your employees a financial stake in the business. This will not only motivate them to perform, but it will ensure they remain loyal for years to come and carry on your legacy.

### 3. Not understanding what their business is worth

It's very hard to estimate the value of your business when you are so emotionally involved. That's why most business owners have little idea precisely what their business is worth. To make things more difficult, the value of your business can fluctuate substantially over time, depending on external variables you have little control over. Seeking a valuation from an independent party can give you a realistic idea of what your business is worth and a solid starting point for negotiations.

### 4. Selling your business to the wrong person

Who you sell to can make all the difference in the final sale price – but it can also have a huge impact on your legacy after you leave. It's important to keep up to date with changes in your industry and seek out a network of qualified buyers and investors who may be a good potential match for what you offer. Finding a strategic buyer who sees the true value of your business (beyond the balance sheet) can be a win-win acquisition for all involved.



## The Secret to Maximizing the Value of Your Business Post COVID-19

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The pandemic has had a profound impact on businesses across the world. It has created a lot of uncertainty in almost every industry. This uncertainty has made it much more difficult to acquire funding, which has disrupted the mergers and acquisitions landscape in a big way.

Many transactions have been put on hold; others have been cancelled entirely. A significant percentage of those which have been finalized included performance covenants or earn-outs over several years imposed by lenders or private equity funders.

At the other end of the scale, opportunistic buyers have revelled in the chance to acquire businesses at low prices. While many businesses are struggling, others are excelling. The rapid growth they have seen gives them greater buying power in a somewhat weakened economy. All this means you need to be careful when deciding when to sell, and who to sell to.

While the landscape may have changed, the secret to maximizing the value of your business post COVID-19 remains the same as always – you need to ensure you undertake proper planning and preparation well in advance.

Uncertain economic circumstances, such as those brought about by the pandemic, can cause even the smartest of businesspeople to make rash decisions. This is especially true given many business owners looking to sell are nearing retirement age. To delay the sale too long may mean putting off your retirement. But taking the time to conduct your due diligence and put a plan into action will protect you from making a mistake you regret during your golden years.

## How To Leave a Lasting Legacy for Your Employees

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A successful exit isn't just about achieving the right sale price. You also want to ensure your employees are taken care of long after you have left their side.

After all, you have likely spent decades leading your team and watching them develop – both as employees and as human beings. Their hard work has played an integral role in your success. You want them to be rewarded for their effort.

This is yet another reason why finding a strategic buyer is so vital when selling your business – a buyer who values your talent and what they have worked so hard to create. By finding this type of buyer, and by following the above 15 strategies, you can ensure the future of your business ends up in safe hands. It will also ensure your legacy will remain intact long after you have made the sale.

Too many business owners sell to the wrong buyer – someone who doesn't truly value their business, talent, and culture – and they regret the sale for years to come. Rather than relax and enjoy their retirement free from regrets, they feel a sense of guilt and disappointment.

As the years go on, they hear horror stories from their former employees about the new direction the company is taking, the worsening working conditions and mass lay-offs or reshuffles. They wish they could travel back in time to find a more suitable buyer, but the opportunity has long since passed.

Doing the necessary networking and preparation upfront can avoid this regret. You'll find a strategic buyer who values your business and those who work there, allowing you to retire in peace, full of pride at the legacy you leave behind.



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